

Report to the Shareholders

We are pleased to have this opportunity to submit this interim consolidated financial report to you on the operation of Northwest Sports Enterprises Limited for the first six months ended December 31, 1970.

The entry of the Vancouver Canucks Hockey Club, which is operated by a wholly-owned subsidiary, into the National Hockey League last fall has been met by the wholehearted support of the people of the City of Vancouver, the Province of British Columbia and Western Canada. The average attendance at the seventeen home games to December 31, 1970 represented about 97.4% of the maximum seating capacity of the Pacific Coliseum.

Earnings per share, based on the number of shares issued and outstanding at December 31, 1970, have amounted to 59.98¢ per share, and 58.78¢ per share on a fully diluted basis. It is important to note that only seventeen out of the total thirty-nine home games of the Vancouver Canucks were played in the first half ended December 31, 1970 and we would anticipate substantially increased earnings in the second half from the five additional home games.

The companies have made no provision for income taxes in their accounts for this year and the reasons for this are outlined in the notes to the attached financial statements.

We are presently undertaking a feasibility study to determine whether it might be possible to add additional seating capacity to the Pacific Coliseum for the 1971-72 season, and several possibilities for future expansion by the company into the sports recreation and leisure time field are presently being considered.

Thomas K. Scallen
President

Northwest Sports Enterprises Ltd.
and its subsidiaries

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Notes to the Consolidated Financial Statements

December 31, 1970

1. Accounting Practices:

A. Revenue:

The company, through two subsidiary companies, operates the Vancouver Canucks in the National Hockey League and the Rochester Americans in the American Hockey League. Revenue from ticket sales is earned exclusively from games played at each team's home arena. As a result, for interim reporting purposes, revenue will vary with the scheduled dates of home games drawn each year for each league. To December 31, 1970, the Vancouver Canucks had played 17 of 39 regular season home games and 20 of 39 regular season away games whereas Rochester had played 17 of 36 home games and 13 of 36 away games.

Revenue from sales of program advertising and radio and T.V. rights is credited to income on the basis of the applicable home games played.

B. Prepaid Expenses:

During the 1970 period, the subsidiary company that operates the team in the National Hockey League deferred certain material direct costs amounting to \$93,300 which will be charged against future revenue on either a home game by game or monthly basis, depending upon the nature of the expense over the last half of the company's fiscal year.

2. Income Taxes:

It is the practice of the companies not to amortize the original cost of franchises and rights to players against income. However, it is the intention of one of the subsidiaries to request a ruling from the Department of National Revenue — Taxation Division on the amortization of such costs against income for income tax purposes. The company is confident that a ruling will be obtained that will result in no income tax liability for the fiscal years ended June 30, 1970 and 1971 and has therefore made no provision for income taxes in its accounts.

The company and its U.S. subsidiary have tax losses available to be carried forward approximating \$36,000 (arising on share issue expenses charged direct to retained earnings) and \$24,000 respectively, which were incurred during the period. The potential tax savings which would result from the application of such losses have not been recognized in the accounts.

3. Earnings Per Share:

The basic earnings per share have been calculated using the weighted daily average number of shares outstanding during the respective periods, which for 1969 gives retro-active effect to an alteration of the company's authorized share capital (50:1) in May, 1970.

If it were assumed that all of the 8½% Convertible subordinated debentures series A had been converted into common shares as of December 8, 1970, the date of issue of such debentures, the fully diluted earnings per share for 1970 would have approximated the basic earnings per share. In calculating the fully diluted earnings per share, the net income for the 1970 period was increased by the interest on debentures, net of income taxes, and the number of shares was adjusted for the weighted daily average of additional shares that would have been outstanding on conversion.

NORTHWEST SPORTS ENTERPRISES LTD.

VANCOUVER CANUCKS
MEMBER OF NATIONAL HOCKEY LEAGUE

REPORT TO SHAREHOLDERS

FIRST HALF ENDED
DECEMBER 31, 1970



SM

Northwest Sports Enterprises Ltd.
Pacific Coliseum, Exhibition Park, Vancouver 6, B.C.

Officers and Directors

Cyrus H. McLean *Chairman of the Board of Directors*
Thomas K. Scallen *President and Director*
Lyman D. Walters *Senior Vice-President and Director*
G. Maxwell Bell *Director*
Coleman E. Hall *Director*
Francis M. P. McMahon *Director*
Win Stephens, Sr. *Director*
William W. Winnett *Executive Vice-President*
Norman R. Poile *Vice-President*
Oscar F. Lundell *Secretary*

Transfer Agent and Registrar

Montreal Trust Company

Underwriter

Royal Securities Corporation Limited

Auditors

Deloitte Haskins & Sells

Legal Counsel

Bull, Housser & Tupper

Northwest Sports Enterprises Ltd.
and its subsidiaries

Consolidated Statement of Income

For the Six Months Ended December 31, 1970
(with 1969 figures for comparison)

	1970	1969
Revenue (Note 1):		
Game ticket sales	\$1,629,000	\$ 662,600
Program advertising and radio and T.V. rights — net	373,100	37,500
Sundry — net	30,200	18,900
	<u>\$2,032,300</u>	<u>\$ 719,000</u>
Expenses (Note 1):		
Operating:		
Team costs	\$ 775,300	\$ 338,600
Rent	162,300	95,000
Other	102,300	59,600
General and Administrative	319,900	108,700
Interest on long-term debt	111,300	6,100
Other expenses (income) — net . . .	65,700	(5,700)
	<u>\$1,536,800</u>	<u>\$ 602,300</u>
Income Before Income Taxes	<u>\$ 495,500</u>	<u>\$ 116,700</u>
Provision for Income Taxes (Note 2)	Nil	Nil
Net Income For The Period	<u>\$ 495,500</u>	<u>\$ 116,700</u>
Basic Earnings Per Share (Note 3)	<u>59.98¢</u>	<u>19.45¢</u>
Fully Diluted Earnings Per Share	58.78¢	19.45¢

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Consolidated Statement of Source and Application of Funds

For the Six Months Ended December 31, 1970
(with 1969 figures for comparison)

	1970	1969
Funds Provided:		
Operations:		
Net income for the period	\$ 495,500	\$ 116,700
Depreciation	2,900	2,200
Amortization of debenture discount and expense	1,100	—
	<u>\$ 499,500</u>	<u>\$ 118,900</u>
Issue of 8½ % convertible subordinated debentures (less discount and issue expenses thereon of \$187,600)	1,812,400	—
Issue of common shares (less issue expenses thereon charged to retained earnings of \$36,200) . . .	1,522,200	—
Portion of indemnification receivable transferred to current assets . . .	97,100	—
Other — net	1,900	25,800
	<u>\$3,933,100</u>	<u>\$ 144,700</u>
Funds Applied:		
Additions to equipment and leasehold improvements	\$ 67,200	\$ 1,300
Current portion of amounts due to the NHL, the WHL and the WHL member clubs	206,700	—
	<u>\$ 273,900</u>	<u>\$ 1,300</u>
Increase In Working Capital For The Period	\$3,659,200	\$ 143,400
Working Capital Deficiency At Beginning Of The Period	(2,635,900)	(24,300)
Working Capital At End of The Period	<u>\$1,023,300</u>	<u>\$ 119,100</u>